

Senate Budget & Fiscal Review

Senator Wesley Chesbro, Chair



Subcommittee No. 3 on Health, Human Services, Labor, and Veterans Affairs

Senator Wesley Chesbro, Chair
Senator Gilbert Cedillo
Senator Tom McClintock
Senator Bruce McPherson
Senator Deborah Ortiz

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Thursday April 10, 2003
Upon Conclusion of Senate Floor Session
Room 4203

AGENDA – Part II

Consultant, Kimberly Collins

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0553 Office of the Inspector General for Veterans Affairs

Purpose and Description. AB 92 (Floyd, Chapter 894/99) established the office. The office reviews the operations and financial condition of the state and local veterans' programs, including the operations and financial condition of the veteran's homes and the veterans' loan programs.

Prior to establishment of the Inspector General's office, the Department of Veterans Affairs (DVA) maintained a five-person office of the internal auditor. The office was to have replaced the internal audit function at DVA. DVA maintains two fully staff internal audit positions.

The Inspector General has responsibility for reviewing the operations and financial condition of the state's veterans' programs, including the State Farm and Home Purchase Program ("Cal-Vet") and the veterans' homes. The budget falls from \$514,000 in the current year to \$457,000 in the budget year, a 14 percent reduction.

Summary of Expenditures				
(dollars in thousands)	2002-03	2003-04	\$ Change	% Change
General Fund	\$423	\$358	-\$65	-15.4%
Special Funds	\$91	\$99	8	8.8
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Total	\$514	\$457	-\$73	-14.2%

Meeting the Office's Statutory Mission. The Inspector General has testified that he cannot meet his statutory mandates for independence and oversight at the funding level provided over the last two years.

Questions from committee:

- What is the department doing to meet its statutory mandates?
 - Has there been steps taken to appoint an Inspector General?
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8955-8966 DEPARTMENT OF VETERANS AFFAIRS and VETERANS' HOMES OF CALIFORNIA

Purpose and Description. The Department of Veterans Affairs (DVA) provides services to qualified veterans and eligible members of the National Guard. Principally, it

- Assists eligible veterans and their dependents in obtaining federal and state benefits.
- Makes below-market loans to qualified veterans for homes and farms. The loans made through the California Veterans Farm and Home Purchase Program use the proceeds from the sale of general obligation and revenue bonds.
- Operates veterans' homes in Yountville (Napa County), Barstow (San Bernardino County) and Chula Vista (San Diego County).

Expenditures Proposed in the Governor's Budget. The budget proposes total expenditures of \$328 million in the budget year.

Table 1
Summary of Expenditures, by Program
Dollars in Thousands

	<u>2002-03</u>	<u>2003-04</u>	<u>Dollar Change</u>
California Veterans Board	(67)	(91)	
California Veterans Board	(67)	(67)	
Farm & Home Loans to Veterans	\$219,847	\$211,217	-\$8,630
Veterans Claims & Rights	5,071	4,662	-\$409
Care of Sick & Disabled Veterans	111,208	112,164	-\$956
Farm & Home Loans to National Guard Members	78	85	-\$7
Veterans' Memorials Fund	23	25	-\$3
General Administration	<u>-2,719</u>	<u>-2,747</u>	<u>-\$28</u>
Totals	\$336,093	\$328,062	-\$10,033

Cashflow Report Update. The department has experienced significant cash management problems, and has sought short term loans to manage its budget. In recent years, the department has been unable to repay the loans. To help the Legislature monitor the department's cashflow, the Legislature required the department to report on cashflow twice yearly.

The first report, due on December 31 2002, states that all three homes will have a cash flow problem because Medicare and MediCal reimbursements are falling below budgeted levels. Further, the report shows that the department will be unable to pay back its 2002 loan.

The second report, due on February 28, 2003, has not been submitted. It is intended to help the Legislature assess the departments progress in collections since December.

Questions from committee:

- What is the department doing to increase the Medicare and MediCal reimbursements?
When can the committee expect to receive the February report?

Loan Update

In recent years, the budget bill authorized the Controller to provide the homes with a short-term loan to accommodate delays in receiving reimbursements, primarily from Medi-Cal and Medicare. The General Fund loan, which could be extended through administrative action was authorized by this provisional language:

When the homes cannot repay their short-term loan within a time frame established by the Controller, the department requests that the loan be "forgiven." When a loan is "forgiven," the budget effect is to increase General Fund expenditures. For example in the 2001 Budget Act, the Legislature forgave a \$2 million loan made to the Barstow Home in 1999. As a result, General Fund expenditures increased by \$2 million.

The Yountville home took out a loan of \$7.8 million and \$5.2 million in 1999-00 and 2000-01, respectively. It has repaid most of these loans, but has a total outstanding balance of \$5.3 million for these loans. These loans are associated with shortfalls in reimbursements for claims against Medi-Cal and Medicare. Given the time limits for making valid claims for these reimbursements, it is highly unlikely that home will be able to repay the General Fund with the reimbursement revenue attributable to 1999-00 or 2000-01.

The home expects to take out a loan for the current and budget years as well. The department states in the December 2002 cash flow report that there will be a cash flow deficiency from all three homes.

Barstow will end the current year with both reimbursements and expenditures below budgeted authority but at a level that will result in a net cash deficiency.

Chula Vista will end the current year with expenditures below budgeted authority but at a level that will result in a net cash deficiency.

Yountville has two outstanding prior year loan balances. A fiscal year 2000-01 balance of \$850,000 and a fiscal year 2001-02 balance of \$7,000,000. The 2000-01 loan will continue to be paid down to an estimated \$30,000. The department currently feels there is significant potential that it may be unable to pay-off the 2001-02 loan and that remaining payments will extend beyond the six-month repayment period specified in the Budget Act.

This language ensures that the Legislature is apprised of the home's fiscal condition before a loan is extended and if the home is unable to meet the repayment condition of the loan.

- Budget bill language states that if the department cannot repay the loan within six months the department must identified a payment schedule for full payment of the loan. The department has not met this requirement. How will the department repay the loans?
- The department will not be able to repay it's 2000 and 2001 loans by June 30, 2003, It will seek forgiveness for these loans. How can the department assure the Legislature that it can repay the new request for \$4.3 million since the department has not been able to repay loans in the past.

Report on Lags in Billings. The department has had difficulty securing reimbursement for the health services it renders. Some of the difficulties arise because the department has been late in making claims to insurance companies and the federal government. The department knows that as an account ages, the likelihood of collecting falls. In the recent past, the department has had significant lags in making claims. The Legislature, as a condition of appropriating funds for the homes, asked the department to report on its progress in making timely claims.

The report is late. Although department staff have said that DVA is making progress in reducing billing lags, without the report the Legislature cannot adequately assess the departments progress.

Supplemental report language states:

On or before December 15, 2002, the department shall report to the chair of the fiscal committee on the lags associated with collecting reimbursements. In particular, the department shall detail:

- The lags incurred between the rendering of services, making claims, and reimbursements received.
 - Actions the department has taken to reduce lags since July 1, 2001.
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- Actions the department intends to take in 2003 to reduce lags. The department shall identify the actions and the expected reduction in lags.

Internal Control System Update

Last year, the Department of finance was requested to do a State Audit to review the department's internal control system. In that review, the auditor determined that the department exhibits most of the warning signs for a poor internal control systems. The Auditor did not make recommendations to fix the control system.

Questions from committee:

- When can the committee expect the report from the Department of Finance?
- Describe to the committee what steps the department has taken to correct the internal control problems.

Departments Long Term Plans for Veterans' Homes

What are the departments future plans for veterans homes?

What are the departments future plans for the medical staff of the veterans homes?
